

State of Utah

Comprehensive Annual Financial Report



'07

For the Fiscal Year Ended **June 30, 2007**

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2007

CONSTITUTIONAL OFFICERS OF THE STATE OF UTAH

Jon M. Huntsman, Jr. Governor
Gary R. Herbert..... Lt. Governor
Auston G. Johnson, CPA State Auditor
Edward T. Alter, CPA..... State Treasurer
Mark L. Shurtleff Attorney General
John L. Valentine President of the Senate
Greg J. Curtis Speaker of the House
Christine M. Durham Chief Justice, Supreme Court

OTHER STATE OFFICIALS

Kimberly K. Hood..... Executive Director, Department of Administrative Services
John C. Reidhead, CPA Director, Division of Finance
John E. Nixon, CPA..... Director, Governor's Office of Planning and Budget
Jonathan C. Ball Director, Office of the Legislative Fiscal Analyst
John M. Schaff, CIA Auditor General, Office of the Legislative Auditor General
Michael E. Christensen Director, Office of Legislative Research and General Counsel

ACKNOWLEDGMENTS

Report prepared by:

Marcie L. Handy, CPA
Eugene F. Baird
Lynn G. Bodrero, CPA
Julia D'Alesandro, CPA, CIA
Lisa Donnelson
Darin C. Janzen
Lynda B. McLane, CPA
Robert Melendez
Deborah S. Memmott
Robert D. Miles
Gary E. Morris, CPA
David H. Pierce, CPA
Roy L. Stewart, CPA

Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



Department of Administrative Services: Division of Finance Accounting Standards and Financial Reporting Section

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007
Table of Contents

INTRODUCTORY SECTION

	Page
Title page – Acknowledgments	1
Table of Contents.....	2
Letter of Transmittal	4
Certificate of Achievement for Excellence in Financial Reporting	9
State of Utah Organization Chart.....	10

FINANCIAL SECTION

Independent State Auditor’s Report.....	12
Management’s Discussion and Analysis.....	14

Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Assets	27
Statement of Activities.....	28
Governmental Fund Financial Statements	
Balance Sheet.....	32
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	34
Statement of Revenues, Expenditures, and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	38
Proprietary Fund Financial Statements	
Statement of Net Assets	40
Statement of Revenues, Expenses, and Changes in Fund Net Assets	42
Statement of Cash Flows	44
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets.....	50
Statement of Changes in Fiduciary Net Assets	51
Component Unit Financial Statements	
Combining Statement of Net Assets	54
Combining Statement of Activities	56
Notes to the Financial Statements.....	58

Required Supplementary Information

Budgetary Comparison Schedule – General Fund	112
Budgetary Comparison Schedule – Education Fund.....	113
Budgetary Comparison Schedule – Uniform School Fund	114
Budgetary Comparison Schedule – Transportation Fund	115
Budgetary Comparison Schedule – Transportation Investment Fund.....	116
Budgetary Comparison Schedule – Budget to GAAP Reconciliation.....	117
Notes to Required Supplementary Information – Budgetary Reporting	118
Information about the State’s Other Postemployment Benefit Plan.....	119
Information about Infrastructure Assets Reported Using the Modified Approach.....	120

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules

Governmental Funds	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	126
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	130

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007
Table of Contents

Supplementary Information – Combining Statements and Individual Fund Statements and Schedules – Governmental Funds (continued)

Budgetary Compliance	
Detail Schedule of Expenditures – Budget and Actual Comparison – General Fund.....	134
Detail Schedule of Expenditures – Budget and Actual Comparison – Uniform School Fund, Transportation Fund, Transportation Investment Fund, and Debt Service Funds.....	146
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	150
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	152
Combining Statement of Cash Flows	154
Internal Service Funds	
Combining Statement of Net Assets.....	160
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	162
Combining Statement of Cash Flows	164
Fiduciary Funds	
Pension and Other Employee Benefit Trust Funds	
Combining Statement of Fiduciary Net Assets.....	170
Combining Statement of Changes in Fiduciary Net Assets	172
Private Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets.....	174
Combining Statement of Changes in Fiduciary Net Assets	176
Agency Funds	
Combining Statement of Fiduciary Assets and Liabilities.....	178
Combining Statement of Changes in Assets and Liabilities	179
Component Units	
Nonmajor Component Units	
Combining Statement of Net Assets.....	182
Combining Statement of Activities	184

STATISTICAL SECTION

Index to the Statistical Section	189
Schedule A–1 Net Assets by Component	190
Schedule A–2 Changes in Net Assets	192
Schedule A–3 Fund Balances — Governmental Funds	196
Schedule A–4 Changes in Fund Balances — Governmental Funds	198
Schedule B–1 Revenue Base	200
Schedule B–2 Revenue Payers by Industry — Taxable Sales, Services, and Use Tax Purchases	202
Schedule B–3 Revenue Payers — Personal Income Tax	203
Schedule B–4 Personal Income Tax Rates	204
Schedule C–1 Ratios of Outstanding Debt by Type	206
Schedule C–2 Other Long-Term Liabilities	208
Schedule C–3 Legal Debt Margin	210
Schedule C–4 Statutory Debt Limit	210
Schedule C–5 Pledged Revenue Bond Coverage	212
Schedule D–1 Demographic and Economic Indicators	213
Schedule D–2 Principal Employers	214
Schedule D–3 Composition of Labor Force	216
Schedule D–4 Public Education Student Enrollment (K–12)	218
Schedule D–5 Public Higher Education Enrollment	218
Schedule E–1 Full-Time Equivalent State Employees by Function	220
Schedule E–2 Operating Indicators by Function	222
Schedule E–3 Capital Asset Statistics by Function	224
Schedule F–1 Expenditures — Historical and Constant Dollars	226
Schedule F–2 Per Capita Expenditures — Historical and Constant Dollars	227



State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

Department of Administrative Services

Kimberly K. Hood
Executive Director

Division of Finance

John C. Reidhead, CPA
Director

November 20, 2007

To the Citizens, Governor,
and Members of the Legislature
of the State of Utah:

It is our pleasure to present the 2007 Comprehensive Annual Financial Report of the State of Utah in accordance with Section 63A-3-204 of the *Utah Code*. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State's management. To the best of our knowledge and belief, the enclosed data accurately presents the State's financial position and results of operations in all material respects in accordance with generally accepted accounting principles (GAAP). We believe that all disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

Internal Control. The State's systems of internal control over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance of safeguarding assets against loss from unauthorized use or disposition and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Independent Auditors. In compliance with state statute, an annual financial audit of the "State Entity" is completed each year by the Utah State Auditor's Office in conjunction with other independent audit firms. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The State Auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

Federal regulations also require the State to undergo an annual "Single Audit" in conformance with the Federal Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of expenditures of federal awards, audit findings and recommendations, summary of prior audit findings, and the State Auditor's report, is issued in a separate report and will be available at a later date.

Management's Discussion and Analysis (MD&A). The discussion and analysis beginning on page 14 provides an overview and analysis of the State's Basic Financial Statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

Structure. As shown in the organizational chart on page 10, state government is divided into three separate branches: legislative, executive, and judicial. The duties of each branch are outlined in the *Constitution of Utah*, which can be amended only by a majority vote of the State's citizens, and in the *Utah Code*, which can be amended by the Legislature or by citizen initiatives. State government services provided to citizens include building and maintaining roads; providing public safety,



health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

This report includes all funds of the State of Utah and includes all departments, agencies, and other organizational units governed by the Legislature and/or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented components units can be found in the notes to the financial statements (see Note 1. A.).

Budgetary Control. The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget by fund, function (e.g., health), and activity (e.g., medical assistance) to the Legislature. The Legislature authorizes expenditures in the annual *Appropriations Acts*. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that departments and funds will not end the fiscal year in a deficit position. For additional information on budgetary control see the notes to Required Supplementary Information on page 118.

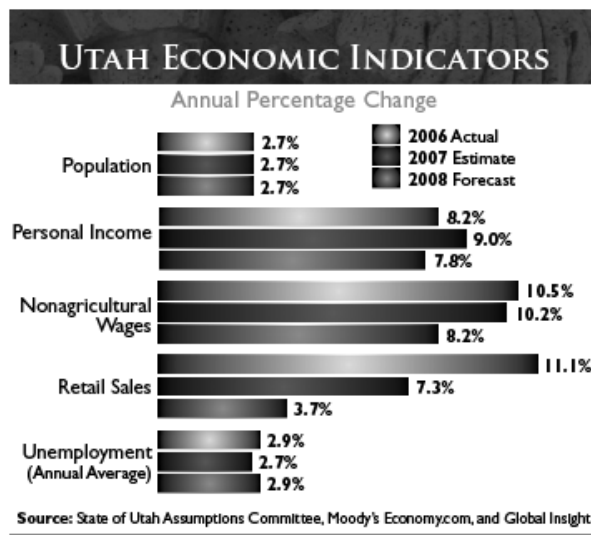
Budget Stabilization. In accordance with Sections 63–38–2.5 and 2.6 of the *Utah Code*, the State maintains the General Fund Budget Reserve Account in the General Fund (the “Rainy Day Fund”) and an Education Budget Reserve Account in the Education Fund (the “Education Reserve”). State law requires 25 percent of any surplus in the General Fund to be deposited in the Rainy Day Fund and 25 percent of any surplus in the Uniform School Fund and Education Fund to be deposited in the Education Reserve, in each case up to a statutory limit. State law limits the combined totals of the Rainy Day Fund and Education Reserve based on the amount of appropriations from certain funds for the fiscal year in which the surplus occurred. In addition to the Rainy Day Fund and Education Reserve, the Legislature created the Disaster Recovery Restricted Account in the 2007 General Session to fund costs to the State directly related to a declared disaster. According to Section 63–38–2.7 of the *Utah Code*, this fund receives 25 percent of the surplus in the General Fund, after the transfer to the Rainy Day Fund has been made.

Spending Limitation. The State has an appropriation limitation statute that limits the growth in the combined appropriations from the General Fund and from income tax revenues for higher education to the relative growth in population and inflation. For the fiscal year ended June 30, 2007, the State was \$17.2 million below the appropriations limitation. The State is currently below the fiscal year 2008 appropriations limitation by \$33.9 million.

ECONOMIC CONDITIONS AND OUTLOOK

Economy. Nationally, corporate before-tax profits increased 14.3 percent in 2006 and are expected to rise only 2.2 percent through the end of 2007 as the economy continues to slow. The national unemployment rate was 4.6 percent in 2006, and is expected to stay at 4.6 percent in 2007, and increase to 5 percent in 2008. Utah's economic indicators continue to be strong, ranking among the best in the nation as Utah's economic expansion continues for its fourth consecutive year.

Utah's unemployment rate is expected to decrease from 2.9 percent in 2006 to 2.7 percent in 2007. Utah's economy continues to provide strong income and wage gains for Utah workers. In 2006, personal income and nonagricultural wages rose by 8.2 percent and 10.5 percent, respectively. In 2007, personal income is expected to increase 9 percent and nonagricultural wages by 10.2 percent. Retail sales grew by 11.1 percent in 2006, and are expected to grow by 7.3 percent in 2007, and 3.7 percent in 2008. Both personal income and retail sales are up significantly from the lows in 2003 of 2.1 percent



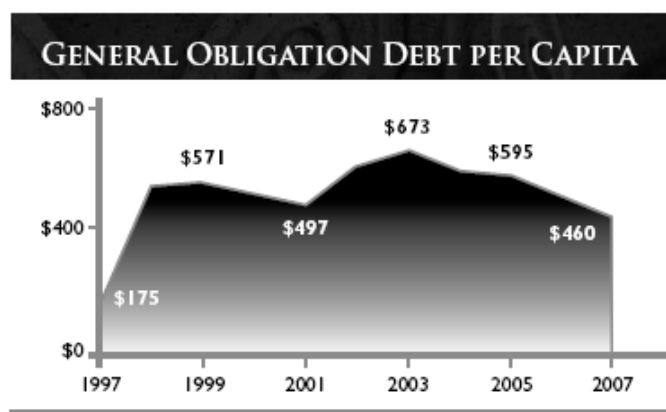
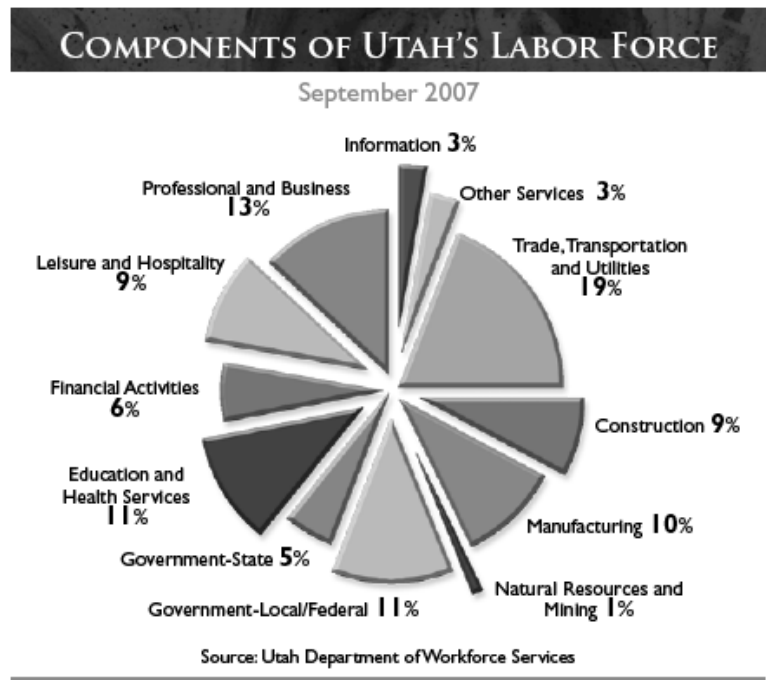
and 2.5 percent growth, respectively. In 2006, total construction value reached a new record at \$7.4 billion, representing a 12.5 percent increase over the 2005 record. Construction valuation in 2007 is expected to be slightly less at \$7.2 billion. In 2006, residential construction also reached a new record of \$4.9 billion, but will slow somewhat as the number of new building permits declines. While residential construction slows, nonresidential projects are still strong, with billions planned in new construction. Utah continues to grow through net in-migration of approximately 29,000 in 2006. Utah has had net in-migration for the past 17 years and this trend is expected to continue in the coming years.

Industries. Utah's nonagricultural employment is expected to increase 4.4 percent in 2007. From September 2006 to September 2007, every industry experienced positive employment growth led by construction (11.7 percent) and natural resources (10.8 percent). Other industries experiencing strong growth in the past year were financial activities (5.7 percent); trade, transportation and utilities (4.6 percent); professional and business services (4.4 percent); leisure and hospitality (4.3 percent); education and health services (4.1 percent); and manufacturing (3.9 percent). In numerical terms, approximately 53,500 new jobs were created in Utah from September 2006 to September 2007. Construction added 11,800 new jobs, leading the way for the third straight year with the most new jobs added. Trade, transportation and utilities added 11,000 new jobs. Other sectors that added new jobs were professional and business services (7,000), education and health services (5,600), manufacturing (4,800), leisure and hospitality (4,700), and financial activities (4,100). Utah's strong employment growth over the past four years has driven the economic boom. This is due in large part to net in-migration and a surge in the 20 to 30 year-old age group entering the workforce and consuming goods and services. The population surge creates the need for more housing, retail space, healthcare and financial services, and manufactured goods. This in turns brings new businesses to the region as they relocate or open satellite operations to be near the growth. Population growth fuels a vibrant economy, which then attracts more population growth.

Outlook. Utah's economic expansion is expected to continue with growth moderating slightly. Strong growth is expected in non-residential construction, professional and business services, and natural resources and mining. The State continues to be positioned well for long-term economic growth.

LONG-TERM FINANCIAL PLANNING

Debt Administration. The State's general obligation bonded debt jumped significantly in 1998 due to issuing bonds for highway construction, mostly for rebuilding I-15 in Salt Lake County. Total general obligation debt remained fairly stable from 1999 through 2001. In fiscal years 2002 through 2003, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing more bonds for highway and building projects that otherwise would have been funded from current revenues. During fiscal year 2004, the State advance refunded \$316.485 million of general obligation bonds to take advantage of continued low interest rates, but did not issue any other general obligation bonds. During fiscal year 2005, the State issued \$140.6 million of general obligation bonds for



highway and capital facilities construction. The State issued no new general obligation bonds during fiscal years 2006 and 2007, but provided funding for building and transportation projects under a “Pay-As-You-Go” plan, using one-time and ongoing money. During the 2007 General Session, the Legislature authorized \$1.1 billion in general obligation bonds for highway projects to address critical needs and in anticipation of future growth, spurred by the Governor’s economic development initiatives. In early fiscal year 2008, the State issued \$75 million in general obligation bonds for highway and capital facility construction. More information about the State’s long-term debt is found in Note 10 to the Basic Financial Statements.

MAJOR INITIATIVES

Utah experienced record economic growth in fiscal year 2007. State funds are projected to increase 17 percent in fiscal year 2008, or \$768 million more than the adopted fiscal year 2007 revenues. These additional funds were directed to priorities such as education, tax reform, and infrastructure.

Education. Funding for education was a major priority for the Governor and the Legislature during the 2007 General Session. The State provided an \$88 million increase in ongoing money for fiscal year 2008 through a 4 percent increase in the value of the Weighted Pupil Unit to fund increases in teacher salaries and benefits and increased operating costs. Other increases for fiscal year 2008 include: \$68.7 million in ongoing money and \$40 million one-time money for educator compensation; \$65.9 million for new student enrollment, projected at 14,530 for the 2007–2008 school year; \$50 million one-time for school buildings through capital outlay funds; \$50 million one-time money to update instructional technology; \$30 million one-time to establish an optional extended day kindergarten; and \$12 million (\$4 million ongoing) to assist school districts in meeting transportation costs. House Bill 318, *Charter School Facilities Financing Act*, created the State Charter School Financing Authority to provide financing opportunities for charter school facilities. The Legislature also significantly revised the existing charter school program, providing \$14.2 million ongoing and \$9.5 million one-time to support the changes. An additional \$6 million was placed into a revolving account for charter school facilities.

For fiscal year 2008, the State provided Higher Education with an additional \$90.5 million in ongoing state funds. This included a \$32.6 million increase for salary and health benefits; \$7.4 million to enhance four-year degree opportunities in rural areas; \$16.8 million for institutional priorities; \$3.8 million for student financial aid; \$3.5 million for engineering, technology, and nursing initiatives; and other amounts to mitigate tuition increases.

Tax Reform and Economic Revitalization. In 2006 and 2007, the Governor and Legislature advanced a series of significant income and sales tax changes to reduce the tax burden on Utah residents and businesses, and improve the economic environment. The Legislature enacted Senate Bill 223, *Tax Amendment* during the 2007 General Session, an omnibus tax bill that establishes a new single-rate income tax of 5 percent, effective in tax year 2008. The bill allows certain tax credits to be taken, which will reduce tax liability on a dollar for dollar basis. The bill also reduces the general sales tax from 4.75 to 4.65 percent and the sales tax on food from 2.75 to 1.75 percent. Most provisions of the bill become effective January 1, 2008. The 2007 tax reform initiatives are expected to cut projected revenue growth from ongoing state revenue by 28.6 percent, and return approximately \$220 million to taxpayers in the first full budget year of implementation (fiscal year 2009). In fiscal year 2008, the total state revenue reduction is estimated to be \$73 million.

Infrastructure. In keeping with the State’s prudent fiscal management policies, the State avoided debt by paying cash for buildings and many of its transportation projects. For fiscal year 2008, legislators appropriated a total of \$159.4 million one-time money and \$30 million ongoing for new state-funded capital facilities projects, including the State Capitol renovation, a health laboratory, and new courthouse. Ongoing funding for capital improvement projects increased by \$10.1 million to \$73.1 million for fiscal year 2008.

The Governor and the Legislature continued their commitment to fund transportation projects. For fiscal year 2008, House Bill 314, *Transportation Funding Revisions*, created the Critical Highway Needs Fund and directed \$90 million of ongoing of sales and use tax revenue into the fund for highway projects. The Legislature also authorized \$1.1 billion in general obligation bonds and directed the Department of Transportation to establish a prioritized list of projects that will be funded with the bond proceeds. For Centennial Highway Fund projects, the State appropriated \$249 million one-time general fund money for fiscal year 2008. The fund will also receive an estimated \$173 million of ongoing money for the Centennial Highway Fund from general sales tax revenue. Finally, one-time appropriations of \$100 million from the General Fund were approved for construction related infrastructure improvements for fiscal year 2008.

Other Postemployment Benefit Plans. In anticipation of Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Legislature took steps to contain the State’s postemployment benefit liability by creating the State Post-Retirement Benefits Trust Fund, an

irrevocable trust fund, effective in fiscal year 2007. In addition, the Legislature appropriated \$51.1 million in fiscal year 2007 and approximately \$54 million in fiscal year 2008, which represents a level of funding that, if paid on an ongoing basis, is actuarially projected to fund the postemployment benefits over a period of twenty-five years. The assets of the trust fund are legally protected and dedicated to providing postemployment health and life insurance coverage to current and future state retirees.

AWARDS AND ACKNOWLEDGEMENTS

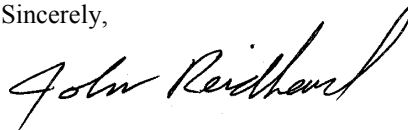
The Government Finance Officers Association (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the State of Utah for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the twenty-second consecutive year the State has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate. We are committed to this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Division of Finance, Department of Administrative Services. We also express our appreciation to the budget and accounting officers throughout state government and to the Utah State Auditor's Office for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, reading "John Reidhead". The signature is fluid and cursive, with the first name "John" and last name "Reidhead" clearly distinguishable.

John C. Reidhead, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Utah

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Han".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

STATE OF UTAH ORGANIZATION CHART

